

SUMMARY



**ECOLOGICAL, SOCIAL AND ECONOMIC ASPECTS
OF INTEGRATED PRODUCT POLICY**

**INTEGRATED PRODUCT ASSESSMENT AND
THE DEVELOPMENT OF THE LABEL
'SUSTAINABLE DEVELOPMENT' FOR PRODUCTS**



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Rue de la Science 8

Wetenschapsstraat 8

B-1000 Brussels

Belgium

Tel: +32 (0)2 238 34 11 – Fax: +32 (0)2 230 59 12

<http://www.belspo.be>

Contact person:

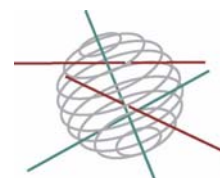
Mrs Marie-Carmen Bex

Secretariat: +32 (0)2 238 37 61

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SCIENTIFIC SUPPORT PLAN FOR A SUSTAINABLE DEVELOPMENT POLICY
(SPSD II)



Part 1:
Sustainable production and consumption patterns

SUMMARY



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OF INTEGRATED PRODUCT POLICY

**INTEGRATED PRODUCT ASSESSMENT AND
THE DEVELOPMENT OF THE LABEL
'SUSTAINABLE DEVELOPMENT' FOR PRODUCTS
CP/20**

Promotor: Prof. Bernard Mazijn
Prof. Ruddi Doom
Herwig Peeters

Coordinator: Prof. Bernard Mazijn

Authors: Sophie Spillemaeckers
Griet Vanhoutte
Liesbeth Taverniers
Prof. Luc Lavrysen
Dirk Van Braeckel
Prof. Bernard Mazijn
Prof. Jorge Duque Rivera

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Centrum voor Duurzame Ontwikkeling
Universiteit Gent
Poel 16
9000 Gent
t: 09 264 82 10
f: 09 264 83 90
<http://cdonet.UGent.be>



Vooruitgangstraat/Rue du Progrès 353/b7
B-1030 BRUSSEL, BRUXELLES
tel.: +32 (0)2 206 11 11
fax: +32 (0)2 206 11 10
info@ethibel.org
www.ethibel.org
BTW/TVA: BE 445 738 666

1 INTRODUCTION

In 2002 the Centre for Sustainable development (CSD) and Ethibel started the research project 'Ecological, social and economic aspects of Integrated Product Policy: Development of two instruments'. The instruments are 1) a 'sustainable development' label for products and 2) indicators for sustainable production and consumption patterns and for integrated product policy. The project was commissioned by the Belgian Science Policy and is part of the second "Scientific support plan for a sustainable development policy", under the theme "General Understanding / sustainable modes of production and consumption". This report concerns the first instrument: the 'sustainable development' label. The summary gives an overview of the objectives, the methods followed and the main conclusions and recommendations.

2 OBJECTIVES

The aim of this policy-oriented research is the development of a voluntary policy instrument: the 'sustainable development' label. The label should make a targeted contribution to achieving a genuine integrated product policy, meaning that ecological as well as social and economic considerations throughout the product's life cycle are taken into account. The main goal of the label is to have a positive effect on working conditions and on the environment, through consumer pressure. It aims to promote products (food and non-food), which are manufactured with respect for social, environmental and economic issues and with a transparent production chain. It wants to offer consumer guidance through identifying environmentally and socially preferable products and to encourage manufacturers to develop sustainable products and services.

3 RESEARCH METHOD

The four main sources of information on which the research was based are literature, the knowledge of the researchers, contacts with experts and stakeholders and the case study. Initially, existing initiatives and relevant literature were studied. An overview was made of labelling systems, certificates and initiatives working with sustainability criteria. A summary was made of relevant themes, criteria, monitoring and evaluation systems, administrative procedures etc.

An important input was provided by previous research projects and by the experience of the research institutes. The Centre for Sustainable Development (CSD) started in 1995 with research in order to develop a method for assessing products from a sustainable development point of view, i.e. taking into account environmental as well as social and economic aspects, throughout the product's life cycle. Ethibel has its own European quality label for investments funds, covering all aspects of social corporate responsibility. They also carry out various kinds of research on social-ethical themes. The research team also has thorough knowledge of the functioning of the European Ecolabel and the Belgian Social label.

Feedback and input from and discussions with experts and stakeholders are considered indispensable to gain relevant information and to create public support for the sustainability label. Different experts played an important and active role in this project.: Ir Jorge Duque (Escuela Politécnica del litoral (ESPOL), Ecuador), Prof. Luc Lavrysen (Centre for Environmental Law, Ghent University) and Patrick Vandamme and his assistant Tinneke Dirckx (Department of Tropical and Subtropical Agronomy and Ethnobotany, Ghent University). Furthermore there was an intensive cooperation with the expert group of the Committee of Responsible Production of the Belgian social label. The main group of stakeholders was the Users Committee, consisting, amongst others, of representatives of NGO's,

workers organisations, government administrations, consumers, and companies. During the project, they were regularly invited to attend meetings or give feedback by email. In addition, several conferences were attended and a number of experts were interviewed.

A case study on the product 'coffee' was carried out to test the labelling method and procedures in reality, in close cooperation with the Escuela Politécnica del litoral (ESPOL) in Guayaquil, Ecuador. The production chains of different types of coffee were analysed. Some coffee originated from Ecuador and some from Guatemala. All were sold in Belgium. The case helped to find out if the monitoring method, the criteria, the indicators and the evaluation system are workable. The instrument was further refined on the basis of the experience gained with the case study.

3.1 A TWO-FOLD APPROACH TO PRODUCT ASSESSMENT

The CSD developed in the project *An integrated approach to chain analysis for chain management by companies*, a model for integrated product assessment. Over the past two years, in cooperation with Ethibel, the theory was fine-tuned and applied in this research project.

Life cycle assessment (LCA) is a widespread and accepted method to evaluate the environmental impact of a product. However, if one wishes to include social and economic aspects in the product evaluation, the LCA-approach turns out to be inadequate. An environmental LCA employs an input-output model, making an inventory of the flows of raw materials, energy and emissions without taking much account of what happens within the company. The actual production process is considered more or less as a black box. Since essential social and economic criteria such as wages, working hours, management of profits are characteristic of what happens during the production process and within the organisation itself, this black box model is not applicable.

Considering these restraints, a model for the evaluation of environmental, social and economic aspects related to the life cycle of a product and its associated enterprises was developed. This two-fold model makes a clear differentiation between aspects closely related to the product on the one hand, and organisation-specific aspects on the other. The product and process related analysis only concerns environmental aspects, while the organisation related analysis concerns environmental as well as social and economic aspects. For the analysis of the product and process related aspects the process tree is determined. This is an overview of all processes involved from the production of raw materials to the waste stage. The LCA method is used to make a generic analysis of the process tree (using software tools). As a result, the bottlenecks / problem areas can be located (approximately). For the problem areas, it is recommended that the resulting criteria be further refined through a place-specific analysis. The organisation related aspects are studied within the framework of the production chain. The production chain is an overview of the companies where the processes described in the process tree actually take place, which implies that all companies linked to the process tree - with name and address - need to be identified. Through a generic analysis of the known chain actors (using sector-specific or regional data) possible bottlenecks can be located. Note the word 'possible': to locate the real bottlenecks, a place-specific analysis is necessary. As a consequence, the place-specific analysis is far more important for the organisation related than for the product and process related evaluation.

The developed assessment method can be applied by companies for sustainable product design, for product assessment and management and for integral chain management. Here, the methodology is used for the policy supporting purpose of developing a label. It is described within this context but applications for other purposes are possible. The model is presented in figure 1.

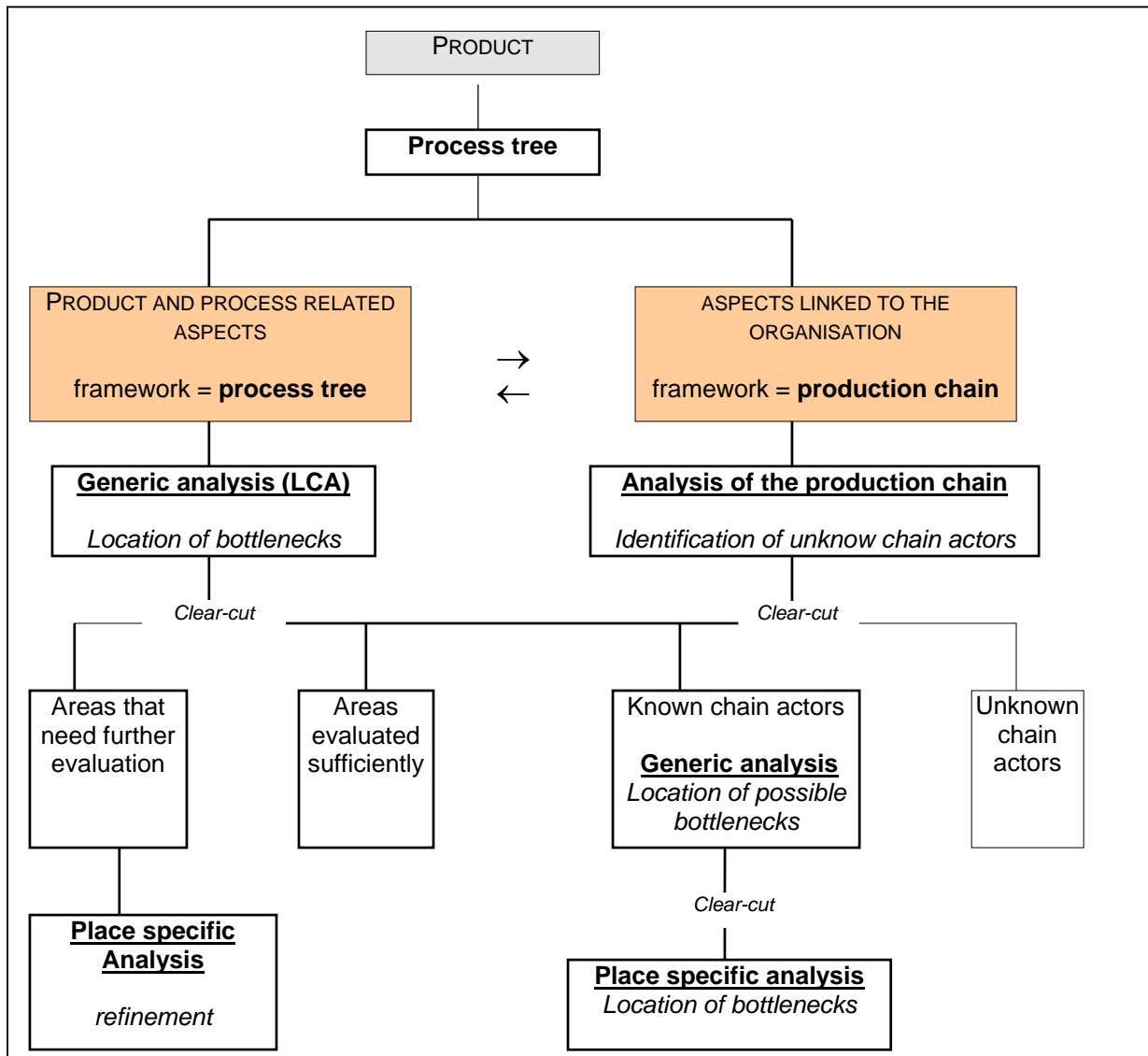


Figure 1: Theoretical model for an integrated approach to chain management

4 THE LABELLING SYSTEM

4.1 CRITERIA DEVELOPMENT

The development of criteria for a sustainable development label is based on the two-fold model described above: in order to be awarded the label, the product as well as the organisations involved in the production chain have to comply with certain criteria. Some of the criteria are product-related, others organisation related. In a first stage, general criteria are developed. General criteria are the same for all product groups. The second step is to adapt the environmental criteria to a specific product group. These specific criteria can contain product and process related and organisation related environmental criteria.

4.1.1 General criteria

The criteria development process started with a literature study, resulting in an extensive list of possible criteria, from which the most relevant criteria were extracted. A list with 4 categories of general criteria with indicators and measuring methods was elaborated: environmental, social, economic and integrated criteria (the latter being a combination of two or three of the criteria categories). The criteria on the initial extensive criteria list were weighed based on quality requirements: *relevance, feasibility, measurability and discrimination*. Four levels of importance were distinguished:

- Not important, and thus to be removed from the list
- Little important (e.g. quite relevant but not feasible nor measurable, etc);
- Important (e.g. relevant, measurable, not discriminating but not easy to implement);
- Very important: essential part of a 'sustainable development' label, in case of non-compliance the label cannot be attributed.

The 'very important' criteria were made mandatory and a list of mainly 'important' and some 'little important' criteria were made optional. Furthermore a difference was made between the mandatory criteria for the applicant company and those for the other chain actors.

One of the aims of the project was to harmonise existing labels. The criteria of some existing labels (Belgian social label, European eco label, SA 8000, FWF ...) are included in the proposed criteria list, so the sustainability label could harmonise some existing product labels. Other labelling systems only partially overlap. Labels for organic production and fair trade labels e.g. have a very specific aim and target group. A sustainability label has to be more broadly applicable, without being too permissive to less sustainable products.

In 2003, the Réseau des Consommateurs Responsables and Velt studied the attitude of the Belgian consumer towards a future sustainability label¹. The study showed that most consumers have high expectations towards a sustainability label and expect it to include all aspects of sustainability. The researchers, however, found that including 'everything' would be very complex and expensive, and tried to balance completeness and practicability.

The study also showed that a lot of consumers are not aware at all of the circumstances many products are made in. They assume most of the products they buy are produced in acceptable circumstances. At the information and discussion sessions² it was suggested that consumer information would be more interesting when identifying 'the rather fairly (and fairly) produced' products, as to distinguish them from 'the bad ones'. This means that a much less demanding product label only considering basic criteria should be used, but on a much wider scale. The proposed criteria could be revised through a very specific stakeholder committee. If applied on a wide scale, this system would have only a limited impact on the product price, since turnover is very likely to increase as well. Instead of labelling 'excellent' products, this system would label 'good' products. This could be an incentive for many producers to ameliorate the social and environmental impacts associated with their products (but only to a limited extent).

¹ Réseau des Consommateurs Responsables & Velt, Hoe staat de Belgische consument tegenover een toekomstig duurzaamheidslabel?, June 2003.

² Brussels 02-02-04

4.1.2 Product specific criteria

The general environmental criteria have to be adapted to a specific product group. This task should be carried out by a group of experts and stakeholders, including at least some experts of the corporate world with practical experience. The product specific criteria can be product and process related as well as organisation related.

In this research project, the general criteria were adapted to the product group 'coffee', in close collaboration with experts and the stakeholder committee, as explained in 5 (case study).

4.1.3 Alternative system

It could be considered to fine-tune all general criteria, according to the Forest Stewardship Council (FSC) model, by adapting them to regional and sector related situations. E.g. if the main environmental problem in a certain region is the availability of water, corresponding attention should be given to this issue in the criteria. Financially this is impossible if the system stays at the Belgian level. But it can be imagined that in a further stage, and if the label becomes European, this system can be introduced and a collaboration with FSC can be considered.

4.2 CHAIN MANAGEMENT AND CHAIN DELIMITATION

4.2.1 Chain management

One of the main issues of the labelling system is that companies should have a good chain management system, since they have also a responsibility for what happens in other parts of the production chain. Chain management facilitates closer relationships with chain actors and makes it possible to detect and discuss problems within the chain with the concerned chain actors. Chain management creates the possibility to work out preventive actions and as a consequence, the risk of scandals diminishes considerably.

Chain management can also be useful for quality control and sustainable product management. A possible tool can be to inform workers about the label criteria linked to the introduction of a trustworthy complaint system, giving workers and other stakeholders the possibility to report on infractions on the criteria, this can make up a solid basis for an internal control system.

4.2.2 Chain delimitation

Companies applying for the label need to know and draw up the process tree and the production chain of the product concerned. These can be very extended and complex, so it can become impossible for the applying company to draw them up completely. Monitoring a very complex chain would also be very time consuming and expensive.

To make the labelling system workable and less expensive, the most relevant processes and chain actors are concentrated on. The expert committee identifies them when developing the product specific guidelines. An LCA study can be used to locate the main environmental problems and the associated life cycle stages.

At present no standardised internationally accepted method for locating the main social and economic problems – and thus the main chain actors - is at hand. In the frame of the labelling system, it is suggested that the experts committee for product specific guidelines identifies the main chain actors based on sector specific and regional information in which possible problems are described. The chain

delimitation guidelines should take into account the practical feasibility of drawing the selected production chain. In some branches it might be impossible to know all the chain actors. Moreover, if the proposed chain is too complex, companies will not be inclined to apply for the label.

4.3 MONITORING

Through the monitoring of the criteria it can be checked whether or not a product is compliant with the requirements of the label 'sustainable development'. The monitoring system has to be reliable to make the label trustworthy. At the same time, it is important that the system is affordable. Both elements (reliability and price) are to be conciliated. This is not easy, if an extensive list of criteria has to be monitored for several companies.

To each criterion, indicators and measuring methods are attributed. Some criteria can be monitored on product related aspects (e.g. results of laboratory test) others require place-specific assessment.

4.3.1 Information provided by the company

In the proposed monitoring system, the applying company has to provide the following documents in the application file, according to the product specific guidelines: a sketch of the process tree and the production chain (containing name and address of the chain actors), proof of compliance with the product related criteria (provided by an accredited verification institute) and a written declaration of all chain actors confirming their compliance with the criteria of the label. It is recommended that the applying company performs an internal monitoring to verify for itself if all chain actors comply with the criteria, to avoid unnecessary (application) costs.

4.3.2 Place-specific assessment

When the labelling secretariat has verified and accepted the application, an accredited auditor for the external monitoring of organization related aspects is appointed. The external monitoring has to be performed following the monitoring guidelines. These guidelines impose as a first step a desktop screening to identify place specific problems and, if necessary as a second step on-site visits.

4.3.2.1 Desktop screening

Desktop screening consists in the consultation of various information sources, as the Internet, literature and specialised databanks. Relevant stakeholders – at least the most relevant workers representatives - are to be identified and can be consulted. The screening verifies the production chain and looks for possible controversies - related to the criteria of the label - within the production chain. This includes the general criteria as well as the product specific criteria based on the LCA.

Screening is a cost efficient method for verification of compliance with the criteria. It gives an overview of the entire chain and can discover flagrant non-compliances. As the screening does not only take into account information given by the company it can give an independent view of the situation. However, some criteria are difficult to monitor through screening and the method is less suitable for monitoring small companies and companies situated in third world countries.

4.3.2.2 On site visits

The desktop screening determines the classification of chain actors in different risk groups, according to their (possible) non-compliances with the criteria. If necessary, companies to be visited on site are chosen in function of their position in this list, by means of a statistical method. The on site visits are

preceded by a preliminary research, to identify the weak points of the company. The visits consist of interviews with the management and the workers, consultation of relevant stakeholders and visits of workplaces and installations.

An on-site monitoring gives a thorough impression of the company. Working circumstances can be assessed and a dialogue with the workers can be held. But on site visits sometimes give only a momentary view of the company. The monitoring should be performed by qualified monitors understanding the local culture and language and with a thorough knowledge of the sector concerned, of social, economic and environmental issues and of the labelling system.

As the monitoring is the main cost of the labelling system, an alternative 'light' version is proposed. This monitoring system only consists of a screening, which is limited to documents and internet search. Management and stakeholders are only contacted in case controversies are found. Experience will show if the first (most complex and most expensive) proposition is realistic. The preferred method can influence the number of products for which the label is applied for, as it will have an influence on the monitoring costs. The more expensive the system, the less small producers or products with links in third world countries can afford it.

4.3.3 Follow-up

When the label is obtained, the labelling committee does an annual follow-up through a light screening. In the 'light version' the follow-up monitoring does not include on site visits either. If controversies are found or if relevant changes occurred within the chain a screening or an on site visit could be programmed.

Most of the organisations visited in the case had been monitored before. Since all monitoring institutions seem interested in controlling similar aspects, it would be interesting to develop a network with controlled access to these monitoring reports, thereby avoiding unnecessary controls.

4.4 EVALUATION

As mentioned above, to evaluate whether or not a product can be attributed a label 'sustainable development' one could work with mandatory and optional criteria. All chain actors have to comply with all mandatory criteria, which cover the most important sustainability criteria. On top of this, the optional criteria need to be lived up to a defined minimum score of e.g 1/3 for each of the 4 categories of criteria. Combining optional and mandatory criteria has both the advantages of flexibility as well as guaranteeing compliance with the main sustainability aspects.

All mandatory criteria have equal weight. The optional criteria could have different weights to make the evaluation subtler. However, the attribution of the weights will then require an intensive stakeholder consultation process.

The most practicable method for the evaluation of individual criteria is to distinguish between 'compliance' and 'non compliance'. Monitors see this as being difficult. It could be considered to apply a more varied scale – and thereby simplifying the monitor's task - but, especially with large numbers of criteria, this makes the evaluation process a lot more complicated.

4.5 PROCEDURES

Procedures were worked out for application, monitoring, follow-up and renewal, complaint system, the internal organisation of the scheme, the selection of product groups, the development of product specific criteria, chain delimitation and financing of the scheme.

Considering the complexity of the label, a handbook for applying companies should be developed, containing more detailed information on the criteria, the difficulties one could meet, etc.

The label is meant to be awarded to one product. If however different products have the same production chain, it could be possible to apply for a label for different products at one time, as the monitoring will be the same for all. In some cases the production chain contains different end products at different stages. In that case the different end producers could apply at the same time for the label. E.g. the producers of cotton, cotton fabric and a T-shirt made out of this cotton fabric could introduce an application for the different products together. This reduces the monitoring costs considerably, and gives the opportunity for more products to obtain the label.

5 CASE STUDY

A case study on the product 'coffee' was carried out in cooperation with the ESPOL in Ecuador. The production chains of different types of coffee were analysed. Some of them were originating in Ecuador and some in Guatemala. All were sold in Belgium.

Based on the process tree the production chains were identified. The production chains were screened based on documents, Internet search and contacts with stakeholders (by phone and email). Part of the Ecuadorian chain - from the plantation till the exporting harbour - was studied in September 2002 during a field visit in Ecuador. The Guatemalan plantations were visited in October 2003. The European part of the chain including transport, coffee roasting and distribution, was studied throughout 2003. The first visit to Ecuador allowed adjusting the theoretical method of the label. During the second visit in Guatemala the monitoring instruments were refined, and could be tested more in-depth. The case study resulted in an adaptation of the instrument.

Both the visits to Guatemala and Ecuador showed that producers have to be informed thoroughly about the label, and have to be prepared to comply with all the criteria. The most salient problem in the South seemed to be child labour, due to local customs. The Belgian chain part did not seem to have any serious problems, but the shipping company (transport overseas) did.

6 LEGAL BASIS

In cooperation with the Centre for Environmental Law (Ghent University), a proposal for a national law and a proposal for of an EU regulation were made up. The overall structure of the law proposals was inspired by the EU Flower Scheme and the Belgian social label. This means that the proposal can be used at national (Belgian) level or at the level of the European Union.

Members of the Belgian and the European parliament were contacted, and are found interested in introducing the law proposals. Since one of the aims of the project is to contribute to harmonisation, it is clear that it would be more efficient if the proposal is introduced at European level. However, by introducing the system at the national level, the Belgian government could also play an important role as a pioneer— as they are doing with the Belgian social label.

A study was made of the compatibility of the sustainable development label and the WTO regulations. The introduction of a voluntary label is not forbidden by the GATT and WTO agreements. The GATT agreements stipulate that governmental voluntary standards may not lead to arbitrary or irresponsible discrimination or hidden trade restriction. The environmental purpose of the label must be explicated. If the label will be used as a condition in public tenders, it has to conform to the TBT agreements. It must be non discriminatory, not lead to trade restrictions and based on international standards.

7 SUCCESS AND PROMOTION

A comment often heard from industry representatives is that participating in labelling schemes is time consuming and very expensive. Others fear that if the government introduces the label it could become mandatory in the end, or they doubt that consumers are interested in labelled products. However, some sectors (food, textile, construction) declare to be much more interested in an integrated label than in an ecolabel. They also consider the application for the label time consuming and expensive, and are not always convinced of the interest of consumers.

The study on consumer interest made by RCR and Velt showed that 60% of the consumers said to be interested in the presence of a sustainability label in supermarkets. Many are not aware of the circumstances products are manufactured in and would like to be better informed. Note however that only 3% of consumers actually buy products with an ethical, environmental or social label. The main reasons for the gap between intentions and behaviour are the price of labelled products and the limited knowledge of what the labels stand for.

Promotion is essential for the label to be successful. As consumers do not know the label, few companies are interested in it. As few products have the label, the labelling system has no budget for publicity and even with publicity consumers would not be able to buy labelled products, as they are not available. Therefore, promotion during the launching period is crucial and the necessary budgetary means should be provided. An important part of the promotion campaign, could be an engagement by the government to give priority to products with a sustainability label in public purchasing.

The consumers' demand for more information could be met by product labelling, given that consumers know what the label stands for. As the study also showed that only few people have knowledge of what 'sustainable development' means, it is recommended that the 'sustainable development' logo be accompanied by an explanatory text. Another (and complementary) possibility is to engage communication experts to search for a name for the label that is more illustrative for its content.

As financial aspects are one of the main reasons for the limited success of labelling schemes, the government should consider making the system financially more attractive. Much more companies would be interested in participating in the scheme. Moreover, eventual price increases would be limited, thereby stimulating consumer interest. Possible solutions are ecoboni or a reduced VAT for labelled products, or that – at least in the beginning - the government would bare the costs of the administration and / or monitoring. SME's - just like applicants from developing countries - should always get a reduction on the fees. Moreover, it is recommended that the 'light' monitoring version is applied for SME's.

8 STAKEHOLDER CONSULTATION

Each part of the project was accompanied by meetings of the Users Committee, in which stakeholder organisations were represented (fair trade and environmental organisations, companies, workers

organisations, government administrations, consumers, north-south organisations...). The aim of these meetings was to get feedback on the project and to develop the instrument in a participative process. Over 30 stakeholders were found interested to join the project's user's committee. Although during the study some people had to leave the committee, others joined until at the end nearly 40 people were invited to give feedback and join the meetings.

Although most of the stakeholders showed a keen interest, their actual input was rather limited. Only few had enough time to read and comment the documents and the number of participants to the meetings diminished increasingly towards the end of the project. This is comprehensible, since there was a lot of text to read and comment, and the presence at the meetings is time consuming. As the project evolved the input asked from the stakeholders was also more technical and not all members had the necessary knowledge to give feedback. All stakeholders participated on a voluntary basis, without receiving any remuneration for their presence and input. Many stakeholders are asked to participate in a huge number of stakeholder consultations, which might limit their possibilities to invest the necessary time and attend all the meetings.

Another problem concerns the representativeness of the stakeholders. In general, unions and federations are based on a structure with a broad membership and take into account their opinion. Most NGO's do not function the same way. Some have a small membership and others are not democratic. Members do not always have an influence on the statements of the NGO they are member of. To be a member is sometimes considered as accepting all points of view of the NGO. In this case the statements of the NGO can be considered as the statements of experts, but not as representative statements.

9 CONCLUSION

The researchers developed a practical system for a product label integrating environmental, social and economic aspects all along the production chain. The system is partly based on existing labelling initiatives. It can be harmonised with some of them and is compatible with others. The proposal has been tested in practice and has been commented upon by a whole range of experts and other stakeholders. For some issues, different possibilities are given, with their advantages and drawbacks.

As a ready-to-use legal basis for a European and a Belgian sustainability label were prepared, everything is ready for the next step: the implementation of a 'sustainability label'.